The

Churchill

Corporation

CHURCHILL

Annual

Report

1991

"We are pleased to report that during the past twelve months we have seen a marked trend toward financial recovery. Highlights of 1991 include a notable strengthening of our construction companies, a very successful launch of Lewis Estates and a re-organization of our company's management..."

Corporate Profile

In 1981, a group of investors incorporated Churchill Development Corporation Ltd. (a closely-held private corporation) for the purpose of investing in mortgages and the management and development of real estate projects. The name of the company was changed to The Churchill Corporation in July, 1985.

In 1987, The Churchill Corporation was merged with Churchill SBEC Limited and A.I.L.-Alberta Investments Ltd. On November 30, 1987, the merged companies were granted a listing on the Alberta Stock Exchange under the name of The Churchill Corporation.

Since that time, the scope of Churchill's portfolio of investments has expanded to include construction, real estate, high technology, manufacturing and service industries.

Subsidiaries

Churchill Investments Inc.	100%
Insulation Holdings Inc.	80%
Krahn's Homemade Style Dressings Ltd.	80%
Maran Equipment Ltd.	100%
Stuart Olson Construction Ltd.	100%
Triton Projects Limited Partnership	80%

Affiliates

Cameron-McIndoo Interiors Ltd.	50%
Lafrentz Road Services Ltd.	41%
Marlin Travel Limited Partnership	21%
Russell Technologies Inc.	45%
Shippers Supply Ltd.	35%
TCC Leasing Ltd.	49%

Report to Shareholders

The Churchill Corporation recorded significant progress during 1991.

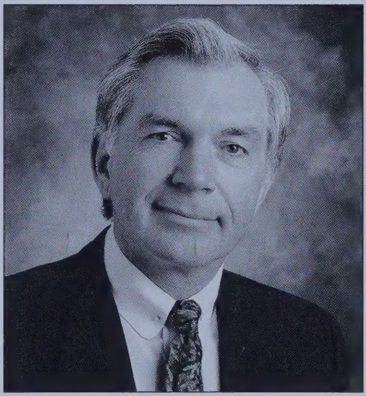
We are pleased to report that during the past twelve months we have seen a marked trend toward financial recovery. Highlights of the year include a notable strengthening of our construction companies, a very successful launch of Lewis Estates and a re-organization of our company's management.

"During 1991, The Churchill Corporation stabilized its operations and re-organized its management structure."

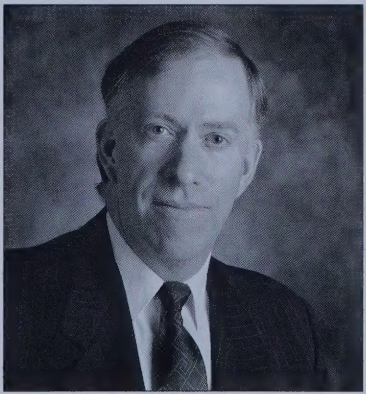
The Consolidated Net Income for the year ended December 31, 1991 was $287,000 on 1991 Revenues of $299 million as compared to a loss of $12.2 million on similar revenue levels in 1990. The results in 1990 included $11.2 million in non-recurring losses.

The basic and fully diluted loss per common share for the year 1991 was $0.06, after adjusting for preferred dividends accumulated during 1991 in the amount of $920,000. This compares to a basic and fully diluted loss per share of $1.25 for the previous year.

Gross profit increased by 8% to $20.9 million, as compared to $19.5 million in 1990. This improvement is largely the result



Robert V. Lloyd, Chairman



H.R. (Hank) Reid, President and C.E.O.

of a turn-around in construction operations. Other income dropped to $847,000 from $2.6 million in 1990, due to the impact of the Gulf War and the economic recession on the operations of affiliated companies. Additional gains were achieved, however, from improved cash management and lower interest rates, which produced a 38% reduction in interest expenses.

During 1991, The Churchill Corporation stabilized its operations and re-organized its management structure. With the exception of President and C.E.O. H. R. Reid, who joined the firm in November 1990, there was a complete change in the senior management of the company. Mr. L.J. Wilson, Mr. L.A. Patrick and Mr. J.B. Whitmore joined the corporate group as Vice President Finance, Vice President and Corporate Counsel, and Controller respectively. In addition, a level of senior management was eliminated entirely. Improved systems were implemented, reducing the reporting period for consolidated monthly results by 50%. We expect that 1992 costs will benefit positively from these efficiencies.

As detailed in Note 11 to the financial statements, the issued share capital of Churchill was reduced by 3,272,254 shares in

1991 in two transactions. The first transaction involved a share cancellation which increased the book value per share of remaining shareholders. The second transaction included an offsetting loan cancellation and had no effect on per share value.

"Improved cash management, asset disposals, and low interest rates all contributed to a 38% decrease in interest expenses during 1991."

This has simplified the complicated capital structure which resulted from the 1988 share purchase of Stuart Olson Construction Ltd.

Debt Management

We are pleased to report progress on our objective to reduce debt.

The consolidated operating debt at December 31, 1991 was $10.5 million, a 33% reduction from the previous year end. Improved cash management, asset disposals, and low interest rates all contributed to a 38% decrease in interest expenses during 1991. The program of debt reduction will continue to be a top priority in 1992. Real estate assets which have either matured or lack the potential for profitable development in the near future will be sold in a timely manner.

Construction

Churchill's construction group achieved a significant turn-around in 1991. Our three construction subsidiaries were profitable and the bottom line performance for the group was over $5 million better than the previous year.

Stuart Olson Construction, Churchill's largest subsidiary and a leading Western Canadian general contractor, made good progress in its strategic re-direction during 1991. An emphasis on profits rather than growth, a change of senior management, and an updating of management reporting systems, all contributed to a profitable year. In March 1992, Mr. Miller MacKinnon was appointed President and Chief Operating Officer of Stuart Olson Construction. With his guidance, Stuart Olson Construction will capitalize on its excellent reputation for delivering a quality product on time and on budget.

Triton Projects, a subsidiary specializing in oilfield and pipeline mechanical contracting, had an excellent year in 1991. Triton was re-organized during 1991, with key personnel buying a 20% ownership interest. Mr. Robert MacKenzie was appointed President and Chief Operating Officer.

Insulation Holdings Inc., an 80% owned insulation and asbestos removal contractor, also performed well. During the year, the company commenced a joint venture in the distribution of insulation products. This new division offers diversification from the contracting side of the business and represents a good potential for improved profit growth.

While the degree of improvement in construction profits in 1992 may be constrained by the highly competitive bidding environment which currently exists in Western Canada, we are confident that our prospects for the construction group remain high.

Real Estate

The future looks bright for Lewis Estates, an innovative residential community and golf course in west Edmonton, in which Churchill owns a 50% interest. The first phase of 225 lots in the 800 acre development was opened in an award-winning campaign in September, 1991. Fifty lots were sold by year end and the selling activity in the first quarter of 1992 is double that experienced in 1991. Low interest rates, 5 percent downpayments, and the availability of RRSP funds are positive factors which will result in further strengthening of the market in 1992.

Equipment

Maran Equipment Ltd., a wholly-owned subsidiary, had a difficult year but management responded to an industry-wide slump with an aggressive sales campaign, an emphasis on customer service, and a program of cost reduction. Market share was improved, the company maintained its status as one of the top 20 Bobcat dealers on the continent, and overhead costs were pared by 19%. New product introductions and an improving market for municipal equipment are expected to provide impetus to the equipment market in 1992.

Corporate Investments

The performance of the corporate investments in which Churchill holds a minority interest was adversely affected by the recession and related government cut-backs. This group of investments has a significant capacity to improve profitability in unison with an improving economy in the latter half of 1992.

1991 was a year to stabilize Churchill's operations and to resolve the difficult organizational issues remaining from the previous two problematic years. Our efforts have been successful and we can now look forward to a period of progressive improvement.

The Churchill Corporation's immediate goal is to significantly improve its return on invested capital by focusing attention on profitability rather than growth. The achievement of this objective during a recession is a challenge, but we are very satisfied with our progress to date. By the end of 1992, Churchill should be well positioned to take advantage of future growth opportunities offered by the improving economy.

"By the end of 1992, Churchill should be well positioned to take advantage of future growth opportunities offered by the improving economy."

During 1991, Mr. Robert Peters resigned from the Board of Directors. We thank him for his years of service to the company. Mr. William McKenzie and Mr. Donald Johnson joined our board; we welcome them and look forward to their counsel.

Robert V. Lloyd, Q.C.
Chairman

H.R. (Hank) Reid
President and Chief Executive Officer

Management Discussion and Analysis

Since its origin in 1981 as a property development company, The Churchill Corporation has expanded to include construction, real estate, high technology, manufacturing and service industries.

Major Events

On December 31, 1988 Churchill acquired Stuart Olson Construction Ltd. Included in the purchase were companies in the business of selling construction equipment, steel fabrication, industrial insulation contracting and a company whose principal business is marking lines on streets and highways.

In 1989 Churchill attempted to establish a national presence in the construction business by purchasing a minority interest in Banister Inc. The intent was to combine the construction operations of Stuart Olson Construction with those of Banister. Changes in the economic climate in Canada resulted in the proposal being abandoned at significant cost to Churchill.

At the same time, the value of Churchill's real estate portfolio was being eroded by a general down turn in the economy. The properties were re-appraised and the investment in property written down by $7.7 million in 1989. In addition, several companies in which Churchill had an equity investment, did not survive the high interest rates and turbulent economic times of the eighties. These events resulted in a $11.2 million reduction in Churchill's capital base.

"Consolidated net income in 1991 was $287,000 compared to a loss of $12.2 million in 1990."

New Management

In 1990 a new management team was appointed. The immediate objective was to return Churchill to profitability and financial stability.

Scope of Operations

With the exception of a small construction specialty company located in Toronto, Churchill and its subsidiary and affiliated companies carry on business in Western Canada.

Stuart Olson Construction Ltd., a general contractor, has branch operations in Edmonton, Calgary, Vancouver and Saskatoon. It competes for commercial construction contracts up to $50 million in size.

Insulation Holdings Inc., expert in the installation and removal of industrial insulation, has branch offices located in Calgary, Edmonton, Winnipeg and Vancouver.

With branches in both Edmonton and Calgary, Maran Equipment Ltd. sells and services construction equipment, including the internationally recognized Bobcat line.

Edmonton based Triton Projects serves the oil and gas industry in Alberta as a mechanical contractor.

In addition, Churchill has minority interests in companies as described on the inside front cover of this report.

Economic Environment

The economy in Western Canada has not escaped the recession. In particular, cutbacks in the oil industry in terms of both personnel and capital investment have been widespread. Reductions in government funding have reduced the capacity of municipal authorities to replace equipment with the result that purchasing decisions were delayed or cancelled.

The recession also caused fundamental changes in business and vacation travel in Canada. In addition, the Gulf War of 1991 had a devastating effect on international travel.

On the positive side, lower interest rates, Edmonton's growing population and a limited supply of lots for sale are expected to increase the sale of residential lots in the Edmonton area.

Financial Review

Consolidated net income in 1991 was $287,000 compared to a loss of $12.2 million in 1990. The loss in 1990 included non-recurring charges of $11.2 million. After adjustment for preferred dividends accumulated on the preferred shares the net loss per share in 1991 was $0.06 compared to a loss of $1.25 per share in 1990.

Administrative expenses were contained in 1991 and will decrease in 1992 when the effect of severance pay and other one time costs are behind us.

Balance sheet values are fairly stated with inventories being at net realizable value and receivables are net of an appropriate allowance for doubtful accounts.

In 1991 the first residential lots in Lewis Estates were put on the market. The costs of those lots have been transferred from property under development to current inventory, with a resulting significant improvement in Churchill's current ratio.

"...the management of Churchill is optimistic about what can be accomplished and our subsidiary and affiliated companies have been encouraged to position themselves for a tough, competitive business environment."

94% of consolidated revenue was from construction related operations, 4% came from equipment sales and 2% originated from other sources, primarily affiliated companies.

During 1991 bank operating debt was decreased by $5.1 million. The reduction in debt and a favourable trend in interest rates resulted in significantly lower interest expense for the year.

Churchill and its subsidiaries and affiliates are financed with a combination of equity funds, bank credit and supplier credit. The company has good

relationships with its bankers and deals with suppliers on normal credit terms. Dividends are in arrears on the Series A First and Second Preferred Shares in the amount of $1,380,000 as at December 31, 1991. The holder of the preferred shares has confirmed it does not intend to exercise its special voting rights provided there is no material adverse change in the company's future operations.

SBEC Holdings Ltd., a subsidiary company, is registered under the Small Business Equity Corporations Act (Alberta). The Act requires the company to maintain available SBEC funds in eligible investments until June, 1992 when the applicable provisions of the Act expire. In 1991 the company entered into investment transactions amounting to $2.8 million.

"Churchill intends to continue to concentrate on business entities in which it has recognized expertise, namely construction, real estate and related industries."

The issued share capital of Churchill was reduced in 1991 as detailed in the notes to the financial statements.

It should be noted that Churchill was able to negotiate a new arrangement with the holder of a $3,150,000 convertible debenture. The liability was reduced by $500,000 and was replaced with a senior promissory note due in 1994. The note ranks in priority to all of the company's unsecured obligations.

However, at year end the eligible investment balance was $920,000 short of the amount required by the Act. The company is actively seeking investment opportunities which meet the criteria of the SBEC regulations.

Fiscal 1992

In view of the ongoing recession and the complex political climate in Canada it is difficult to forecast 1992 operations. Nonetheless, management of Churchill is optimistic about what can be accomplished and our subsidiary and affiliated companies have been encouraged to position themselves for a tough, competitive business environment.

While it seems certain that the oil industry in Alberta will continue on its current course of below average activity, commercial construction activity in Calgary and Vancouver is expected to continue at 1991 levels. In Edmonton, the opportunity to earn profits will more likely be from the sale of residential building lots. It is expected there will be a lack of new construction projects in Northern Alberta and the competition for business will be intense with potentially lower margins.

A modest increase in equipment sales is being forecast. Lower interest rates and requirements to replace worn out equipment should produce the impetus.

Churchill intends to continue to concentrate on business entities in which it has recognized expertise, namely construction, real estate and related industries.

Auditors' Report

To the Shareholders of The Churchill Corporation

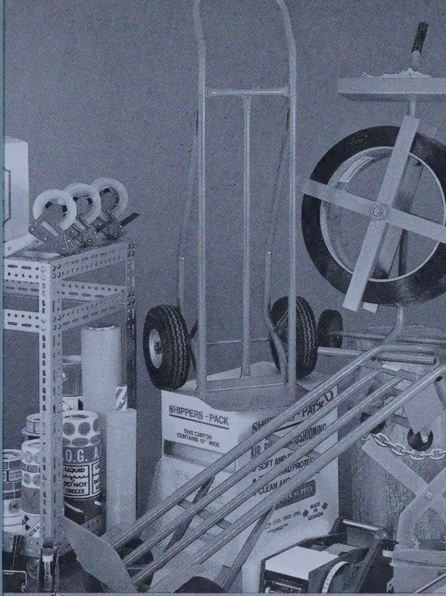
We have examined the consolidated balance sheet of The Churchill Corporation as at December 31, 1991 and the consolidated statements of income, deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

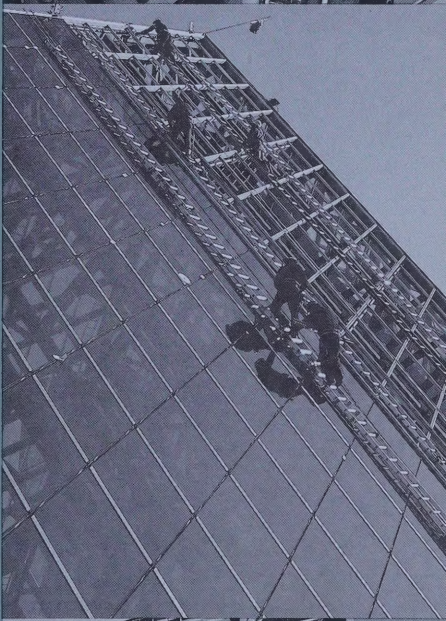
We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

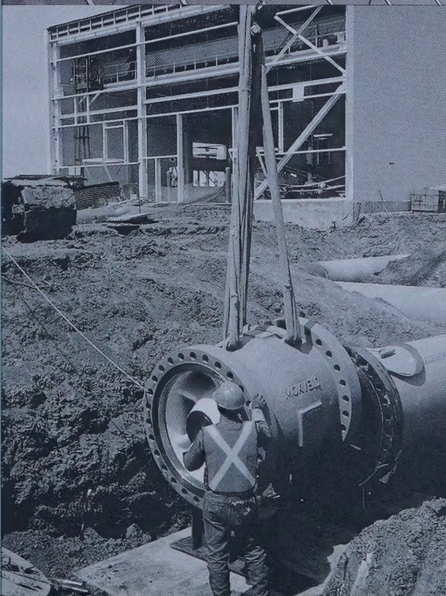
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants, Edmonton, Alberta
March 13, 1992







Consolidated Balance Sheet

December 31, 1991

	(in thousands)	1991	1990
ASSETS	Current Assets		
	Cash and Term Deposits (Note 2)	$ 4,544	$ 3,535
	Inventories and Prepaid Expenses	8,878	8,679
	Accounts Receivable	54,157	66,390
	Properties for Sale (Note 3)	12,011	6,933
	Current Portion of Agreements Receivable (Note 4)	715	554
		80,305	86,091
	Agreements Receivable and Other (Note 4)	488	631
	Corporate Investments (Note 5)	9,196	9,063
	Property and Equipment (Note 6)	9,534	10,807
	Properties under Development (Note 7)	9,248	11,516
	Goodwill	559	645
		$ 109,330	$ 118,753
LIABILITIES	Current Liabilities		
	Bank Indebtedness (Note 8)	$ 10,449	$ 15,514
	Accounts Payable	48,338	56,560
	Contract Advances and Unearned Income	9,656	8,602
	Provision for Future Development Costs (Note 7)	1,148	—
	Deferred Income Taxes (Note 9)	1,035	1,021
	Current Portion of Long-Term Debt (Note 10)	7,042	8,358
		77,668	90,055
	Long-Term Debt (Note 10)	14,994	12,979
	Deferred Income Taxes (Note 9)	36	16
	Minority Interest	1,164	522
		93,862	103,572
	Contingencies and Commitments (Notes 15 and 16)		
SHAREHOLDERS' EQUITY	Shareholders' Equity (Note 11)	15,468	15,181
		$ 109,330	$ 118,753

Approved by the Board:

Director   Director

Consolidated Statement of Income

Year Ended December 31, 1991

(in thousands)	1991	1990
Revenue	$ 298,659	$ 303,933
Direct Costs	277,714	284,473
	20,945	19,460
Other Income (Note 12)	847	2,599
	21,792	22,059
Indirect and Administrative Expenses	17,695	17,636
Interest Expense	3,123	5,068
Net Operating Income (Loss)	974	(645)
Provision for Income Taxes (Note 9)	(245)	(299)
Minority Interest	(442)	(39)
Loss on Acquisition of Construction Contracts	—	(1,668)
Loss on Disposition of Investments	—	(5,608)
Asset Revaluation	—	(3,936)
NET INCOME (LOSS)	$ 287	$ (12,195)
BASIC AND FULLY DILUTED LOSS PER COMMON SHARE (Note 13)	$ (.06)	$ (1.25)

Consolidated Statement of Deficit

Year Ended December 31, 1991

(in thousands)	1991	1990
Deficit, Beginning of Year	$ (17,267)	$ (4,612)
Net Income (Loss)	287	(12,195)
Dividends on Preferred Shares	—	(460)
Deficit, End of Year	$ (16,980)	$ (17,267)

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1991

	(in thousands)	1991	1990
OPERATING ACTIVITIES	Net Income (Loss)	$ 287	$ (12,195)
	Add (deduct) non-cash items		
	Net equity loss (income)	326	(766)
	Depreciation, depletion and goodwill amortization	1,932	1,929
	Gain on sale of assets	(186)	(229)
	Loss on disposition of investments	—	5,608
	Asset revaluation	—	3,936
	Change in minority interest	642	59
	Net change in accounts receivable, inventories and prepaids	12,034	(66)
	Net change in accounts payable, contract advances and unearned income	(7,168)	(5,266)
	Deferred income taxes	34	131
	Cash provided by (used in) operating activities	7,901	(6,859)
INVESTMENT ACTIVITIES	Common share dividends received	—	571
	Proceeds on sale of corporate investments	—	10,641
	Proceeds on sale of assets	2,081	7,809
	Principal payments of agreements receivable	2,054	2,320
	Advances on agreements receivable	(2,130)	(100)
	Additions to corporate investments	(647)	(763)
	Additions to assets	(5,037)	(6,864)
	Increase in provision for future development costs	1,148	—
	Deletion of assets belonging to subsidiaries in receivership	—	1,781
	Purchased goodwill	(87)	—
	Other	92	27
	Cash (used in) provided by investing activities	(2,526)	15,422
FINANCING ACTIVITIES	Decrease in bank indebtedness	(5,065)	(7,384)
	Issuance of long-term debt	7,162	4,872
	Long-term debt repayment	(6,463)	(5,368)
	Preferred dividends paid	—	(460)
	Cash used in financing activities	(4,366)	(8,340)
	INCREASE IN CASH	1,009	223
	CASH, BEGINNING OF YEAR	3,535	3,312
	CASH, END OF YEAR	$ 4,544	$ 3,535

Notes to the Consolidated Financial Statements

(December 31, 1991)

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada, and reflect the following policies:

Consolidation

The consolidated financial statements include the accounts of the subsidiaries, the limited partnership and the company's proportionate share of the assets, liabilities, income and expense of the joint venture as follows:

Stuart Olson Construction Ltd. (100%)	Maran Equipment Ltd. (100%)
Insulation Holdings Inc. (80%)	Triton Construction Inc. (80%)
Triton Projects Limited Partnership (80%)	SBEC Holdings Ltd. (100%)
Krahn's Homemade Style Dressings Ltd. (80%)	Churchill Investments Inc. (100%)
Camsteel Fabricators Inc. (80%)	TMC Payroll Ltd. (100%)
Insulation Contracting Specialties Inc. (100%)	The Extra Equity Corporation (50%)

Inventories

Inventories are recorded at the lower of cost and net realizable value.

Corporate Investments

Corporate investments include significant equity interest in operating companies. These interests, where Churchill has significant influence, are accounted for on the equity basis. Where the investee's year end precedes December 31, the company's share of earnings is determined up to the investee's year end, adjusted for the impact of any significant subsequent results.

Real Estate

Properties under development are recorded at the lower of cost or net realizable value.

Carrying costs, including property taxes and interest, are capitalized on properties under development during construction and on properties held for development. Rental losses during a reasonable lease-up period are capitalized on newly developed properties. Such costs are capitalized only if the resultant carrying value does not exceed estimated net realizable value.

Properties for sale are recorded at the lower of cost or net realizable value.

Leasing costs on commercial properties are capitalized and amortized over the lease period.

Income from the sale of properties is recognized when the company has fulfilled all material conditions and has received a down payment that is appropriate in the circumstances.

Depreciation on revenue producing commercial buildings and improvements is provided on a 5% sinking fund basis over periods from 25 to 50 years. (Note 3)

Property and Equipment

Property and equipment are recorded at cost. Buildings, vehicles, furniture, fixtures and equipment are depreciated using both the diminishing-balance and straight-line methods at the rates indicated in Note 6.

Contract Income

Revenue from construction contracts is recognized on the percentage of completion basis. The percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost for each contract. Any projected loss is recognized immediately.

Goodwill

Goodwill is calculated as the excess purchase price paid on the acquisition of subsidiary and affiliated companies over the value assigned to identifiable net assets acquired and is being amortized on a straight-line basis over periods not exceeding 20 years.

2. CASH AND TERM DEPOSITS

Cash and term deposits include $2,342,978 (1990 - $3,161,757) held by a subsidiary registered under the Small Business Equity Corporations Act (Alberta). Under the Act, these funds must be maintained in the subsidiary until applicable provisions of the Act expire in June 1992.

Notes to the Consolidated Financial Statements

(December 31, 1991)

3. PROPERTIES FOR SALE

(in thousands)

	1991			1990
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Revenue Producing				
Commercial	$ 4,280	$ 198	$ 4,082	$ 4,103
Residential	5,056	—	5,056	—
	9,336	198	9,138	4,103
Non-Revenue Producing				
Undeveloped	7,566	—	7,566	7,523
	$ 16,902	$ 198	16,704	11,626
Less Cumulative Valuation Adjustment			(4,693)	(4,693)
			$ 12,011	$ 6,933

4. AGREEMENTS RECEIVABLE AND OTHER

(in thousands)

	1991	1990
Mortgages, loans and agreements		
Non-interest bearing	$ 665	$ 274
Interest at 6% - 9%	217	222
Interest at 9.5% - 16%	356	374
Allowance for doubtful amounts	(105)	(106)
Cash surrender value of life insurance	—	235
Deferred charges	67	66
Other	3	120
	1,203	1,185
Less current portion	(715)	(554)
	$ 488	$ 631

5. CORPORATE INVESTMENTS

(in thousands)

	1991	1990
Equity investments		
Debentures – 12% - 15% interest rates	$ 51	$ 84
Preferred shares – up to 10% dividend rates	3,560	3,160
Net equity	3,695	4,117
	7,306	7,361
Marketable securities		
At lower of cost or net realizable value	454	454
Oil and gas interests, net of depletion of $371,206 (1990 - $280,061)	1,436	1,248
	$ 9,196	$ 9,063

Unamortized goodwill included in equity investments amounted to $469,690 (1990 - $497,033). Preferred shares have cumulative dividend rights and are redeemable from profits of the investees. Preferred dividends in arrears, which have not been recognized in the accounts, amounted to $218,025 (1990 - $171,327).

Notes to the Consolidated Financial Statements

(December 31, 1991)

6. PROPERTY AND EQUIPMENT

(in thousands)

	1991			1990	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Vehicles	$ 396	$ 243	$ 153	$ 370	30% - 33⅓%
Plant and equipment	8,032	4,625	3,407	3,422	5% - 30%
Furniture and fixtures	693	342	351	929	10% - 30%
Buildings and improvements	3,951	1,019	2,932	3,122	4% - 20%
Rental equipment	1,198	328	870	1,143	12%
Land	1,821	—	1,821	1,821	
	$ 16,091	$ 6,557	$ 9,534	$ 10,807	

7. PROPERTIES UNDER DEVELOPMENT

(in thousands)

Included in property under development is the company's 50% interest in The Extra Equity Corporation (Lewis Estates), an 800 acre residential land development in west Edmonton. This investment has been accounted for using the proportionate consolidation method whereby 50% of the assets and the liabilities of the development are included in the accounts as shown below:

	1991	1990
Cash	$ 47	$ 25
Accounts receivable	753	—
Land:		
Under development	9,528	10,071
Held for resale	5,056	—
	$ 15,384	$ 10,096
Accounts payable	$ 605	$ 963
Provision for future development costs	1,148	—
Unearned income	75	—
Current portion of long-term debt	3,137	1,479
Long-term debt	10,336	7,914
Retained Earnings (Deficit)	83	(260)
	$ 15,384	$ 10,096

Interest capitalized to development properties during the year amounted to $1,548,867 (1990 - $901,856).

Land held for resale also includes the total estimated costs yet to be incurred for servicing and development. These costs are accrued and shown separately as a provision for future development costs.

The bankers for the joint venture have issued $1,854,000 of letters of credit on behalf of the joint venture. These letters of credit are secured by the property of the joint venture. In addition, the company provided a $500,000 limited guarantee to the joint venture.

8. BANK INDEBTEDNESS

Bank indebtedness is secured by floating charge debentures, general assignments of book debts and by the pledging of specific assets.

9. INCOME TAXES
(in thousands)

The income tax provision consists of:

	1991	1990
Current Provision (Recovery)	$ 210	$ (34)
Deferred	35	333
	$ 245	$ 299

This tax provision results from certain subsidiary companies that do not have sufficient tax losses to shelter their taxable income. Deferred income taxes result primarily from a subsidiary's deduction for income tax purposes of accounts and holdbacks receivable not due until the following year.

The consolidated group has accumulated non-capital losses for income tax purposes of $13,015,000 which may be carried forward and used to reduce taxable income in future years. If not utilized, these losses will expire as follows:

1992	$ 86
1993	977
1994	274
1995	865
1996	1,577
1997	6,111
1998	3,125
	$ 13,015

Recognition has been made in these financial statements of $4,812,000 of the above tax losses carried forward through the reduction of a deferred income tax liability.

10. LONG-TERM DEBT
(in thousands)

	1991	1990
Bank loans (Prime - .5% to Prime + 2%; 7.6% to 9.5%)	$ 12,563	$ 8,884
Mortgages (10.9% to 13.8%)	2,612	4,074
Agreements Payable (Prime + 1% to 2%)	3,254	3,991
Convertible Debenture (8%)	—	3,150
Equipment Financing (Prime + .75% to 1.75%)	957	1,238
Promissory Note	2,650	—
	22,036	21,337
Less current portion	(7,042)	(8,358)
	$ 14,994	$ 12,979

Bank loans are payable on demand and are secured by floating charge debentures, assignment of book debts and assignment of a term deposit.

Mortgages are secured against specific rental properties.

The convertible debenture was redeemed December 31, 1991. Concurrently, Churchill granted a $2,650,000 promissory note which bears interest payable semi-annually at rates of 9%, 10% and 11% in the years 1992, 1993, 1994 respectively, and which is due on December 31, 1994. The promissory note is in priority to all unsecured obligations of Churchill.

10. LONG-TERM DEBT (continued)
(in thousands)

Interest cost on long-term debt during the year was $2,168,179 (1990 - $2,462,433).

Estimated principal amounts due in each of the next five years are as follows:

1992	$ 7,042
1993	6,774
1994	5,198
1995	526
1996	462

11. SHAREHOLDERS' EQUITY
(in thousands)

	1991	1990
Share capital	$ 32,448	$ 32,448
Deficit	(16,980)	(17,267)
	$ 15,468	$ 15,181

Share capital

Authorized

6,500,000	Series A 8% cumulative redeemable first preferred shares. Redemption, at $1.00 per share, is based on 20% of net cash flow beginning in 1992 with full redemption by December 31, 1995.
1,923,077	Series A 8% cumulative redeemable second preferred shares redeemable at $2.60 per share on December 31, 1997
3,500,000	First preferred shares issuable in series with rights set by the directors
8,076,923	Second preferred shares issuable in series with rights set by the directors
110,000,000	Class A common shares

Issued

	Shares	Share Capital	Contributed Surplus	Total
Series A 8% cumulative first preferred shares	6,500,000	$ 6,500	$ —	$ 6,500
Series A 8% cumulative second preferred shares	1,923,077	5,000	—	5,000
Total preferred shares		11,500	—	11,500
Class A common shares Issued, beginning of year	12,652,519	20,703	6,245	26,948
Less				
Shares cancelled by agreement	(1,349,177)	(1,983)	1,983	—
Shares returned in exchange for loan cancellation	(1,923,077)	(5,000)	—	(5,000)
Class A common shares Issued, end of year	9,380,265	13,720	8,228	21,948
Less				
Issued shares held by affiliate	(200,000)	(200)	(800)	(1,000)
Total common shares	9,180,265	13,520	7,428	20,948
		$ 25,020	$ 7,428	$ 32,448

11. SHAREHOLDERS' EQUITY (continued)
(in thousands)

Shares Cancelled

During the year, a shareholder submitted 1,349,177 Class A common shares of the company for cancellation. The return of these shares fulfils the terms of the undertaking to underwrite losses of the construction group, which was acquired in December 1988.

As part of the exchange for Stuart Olson Construction Ltd., Churchill provided a $5,000,000 loan to 393738 Alberta Ltd., which was used to acquire 1,923,077 Class A common shares of Churchill at that value. These shares were returned in exchange for cancellation of the loan.

Options and Conversion Rights

Rights to acquire 5,738,745 Class A common shares are outstanding at prices ranging from $2.56 to $3.60.

In addition the company, subject to consent by The Alberta Stock Exchange, has granted an officer options to purchase up to 200,000 Class A common shares at $0.35.

The company has the right to cause a preferred shareholder to convert up to $1,500,000 of the Series A first preferred shares into common shares at a price ranging from $2.60 to $3.60 per share if the average trading price of the common shares exceeds the conversion price by 30% for twenty consecutive trading days.

Preferred Shares

The cumulative dividends on preferred shares were in arrears in the amount of $1,380,000 as at December 31, 1991 (1990 - $460,000). An agreement exists between the company and a major investor which provides the investor the right to assume voting control of the company if payment of dividends on that block of preferred shares remains in default for more than 90 days. The investor has confirmed it does not intend to exercise its special voting rights provided there is no material adverse change in the company's future operations.

12. OTHER INCOME
(in thousands)

Other income consists of:	1991	1990
Interest income	$ 791	$ 861
Equity (loss) income	(326)	821
Amortization of goodwill	(46)	(55)
Oil and gas	213	220
Sundry	31	242
Management fees	184	510
	$ 847	$ 2,599

13. LOSS PER COMMON SHARE
(in thousands)

	1991	1990
Net income (loss)	$ 287	$ (12,195)
Current year preferred dividends paid	—	(460)
Current year preferred dividends in arrears	(920)	(460)
	$ (633)	$ (13,115)
Weighted average of common shares outstanding	10,192	10,529
Loss per common share	$ (.06)	$ (1.25)

14. RELATED PARTY TRANSACTIONS
(in thousands)

As at December 31, 1991, the following balances were outstanding or transactions occurred with affiliated companies, directors and their controlled companies.

	1991	1990
Amounts Receivable	$ 991	$ 851
Management and Advisory Fees	$ 184	$ 530

The above amounts arise in the normal course of business and are on terms similar to transactions with non-related parties.

15. CONTINGENCIES

(a) The company is contingently liable for the repayment of indebtedness of affiliated companies in the amount of $200,000 at December 31, 1991.

(b) A subsidiary of the company is required to maintain 70% of its equity capital in eligible investments until June 1992 in order to avoid the recapture provisions of the Small Business Equity Corporations Act. The subsidiary was not in compliance as at December 31, 1991. It will be necessary to invest $920,000 of the restricted cash and term deposits (Note 2) in order to meet the investment requirements of the Act.

(c) The company and its subsidiaries are defendants in lawsuits involving various amounts. Management is of the opinion that the results of these actions should not have any material effect on the financial position of the company. Any awards or settlements will be reflected in income as the matters are resolved.

(d) Revenue Canada has re-assessed a subsidiary company's taxable income in the years 1979 to 1982. The company has filed notice of objection to these re-assessments. The eventual outcome of these assessments cannot be determined at this time and therefore no amounts have been included in these financial statements. If any payments are ultimately required as a result of these re-assessments, they will be treated as a prior period adjustment when paid.

16. COMMITMENTS
(in thousands)

The company leases certain equipment, vehicles and office premises. Under existing terms of the leases, future minimum lease payments over the next five years are:

1992	$ 1,474
1993	930
1994	569
1995	378
1996	336

Notes to the Consolidated Financial Statements

(December 31, 1991)

17. SEGMENTED INFORMATION

(in thousands)

1991	Construction	Real Estate	Equipment Sales & Service	Equity Investments	Other	Consolidated
Revenue (Loss)	$ 281,650	$ 4,101	$ 12,085	$ (372)	$ 1,195	$ 298,659
Direct Costs	263,563	3,297	9,868	—	986	277,714
	18,087	804	2,217	(372)	209	20,945
Other Income	—	—	—	—	847	847
	18,087	804	2,217	(372)	1,056	21,792
Indirect and Administrative	13,423	(66)	2,347	—	1,991	17,695
Unallocated interest	—	—	—	—	—	3,123
Net operating income (loss)	$ 4,664	$ 870	$ (130)	$ (372)	$ (935)	974
Provision for Income Taxes						(245)
Minority Interest						(442)
NET INCOME						$ 287
Assets	$ 62,820	$ 25,040	$ 5,661	$ 7,759	$ 8,050	$ 109,330

17. SEGMENTED INFORMATION (continued)
(in thousands)

1990	Construction	Real Estate	Equipment Sales & Service	Equity Investments	Other	Consolidated
Revenue	$ 277,588	$ 7,791	$ 17,051	$ 802	$ 701	$ 303,933
Direct Costs	261,814	7,122	14,039	—	1,498	284,473
	15,774	669	3,012	802	(797)	19,460
Other Income	—	—	—	—	2,599	2,599
	15,774	669	3,012	802	1,802	22,059
Indirect and Administrative	12,711	81	2,888	—	1,956	17,636
Unallocated interest	—	—	—	—	—	5,068
Net operating income (loss)	$ 3,063	$ 588	$ 124	$ 802	$ (154)	(645)
Provision for Income Taxes						(299)
Minority Interest						(39)
Loss on Acquisition of Construction Contracts						(1,668)
Loss on Disposition of Investments						(5,608)
Asset Revaluation						(3,936)
NET LOSS						$ (12,195)
Assets	$ 73,525	$ 21,433	$ 7,240	$ 7,814	$ 8,741	$ 118,753

18. COMPARATIVE FIGURES

Prior year deferred income taxes recorded by a subsidiary of $1,021,000 were reclassified from long-term liabilities to current liabilities to conform with a classification change made by the subsidiary in the current year.

Corporate Directory

Board of Directors

Stanton K. Hooper

Donald E. Johnson

Robert V. Lloyd, Q.C.

Robert D. MacLean*

William R. McKenzie

H.R. (Hank) Reid

John L. Schlosser

David D. Schuster

R.A. (Sandy) Slator*

*Not standing for re-election

Officers

Robert V. Lloyd, Q.C.
Chairman

H.R. (Hank) Reid
President and
Chief Executive Officer

Lyle J. Wilson, C.A.
Vice President Finance

Lynn A. Patrick
Vice President and Corporate
Counsel

J.B. (Brad) Whitmore, C.A.
Controller

Annual General Meeting

The Annual General Meeting of Shareholders will be held at 9:00 a.m., Wednesday, May 20, 1992
The Westin Hotel
10135 - 100 Street
Edmonton, Alberta

Legal Counsel

Ogilvie & Company

Milner Fenerty

Cook Duke Cox

Auditors

Deloitte & Touche

Transfer Agent

National Trust Company
1008, 324 - 8th Avenue S.W.
CALGARY, Alberta
T2P 3B2

Bankers

Alberta Treasury Branch

Barclays Bank of Canada

Canadian Imperial Bank
of Commerce

Exchange Listing

Alberta Stock Exchange
Trading Symbol: "CUQ"

Executive Offices

2300 Scotia Place
10060 Jasper Avenue
EDMONTON, Alberta
T5J 3R8
Telecopier: (403) 425-6822
Telephone: (403) 424-8230

April 16, 1992

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CHURCHILL

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